After Private Finance Initiative (PFI/PF2), what next for infrastructure financing in the UK?

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Résumé

The UK has been at the forefront of the promotion of private finance in infrastructure. This has translated into one of the largest shares of private finance in infrastructure across its OECD peers and strong involvement of the UK in promoting the model of private finance in infrastructure globally (see Bayliss and Van Waeyenberge 2018). The last decade has however seen its main model of private finance in infrastructure, the Private Finance Initiative (PFI), increasingly under pressure, both as a result of the fallout from the Global Financial Crisis (GFC) and various issues related to its own performance. Despite attempts by the UK government to revive PFI under the guise of Private Finance 2 (initiated in 2012), some PFI/PF2 deals collapsed and the financing scheme was formally abandoned by the government in October 2018 (HM Treasury 2018). This has coincided with an explicit commitment by the UK government to privately finance a large share of its planned upscaling of infrastructure over the next 10 years (IPA 2018). This paper unpacks this apparent paradox, charting the trends in private finance in infrastructure together with the various hurdles it has encountered over its history, with particular attention to the repercussions of the GFC and the increased political fallout from its poor performance. It points to the way in which particular contestations around private finance in social infrastructure have led to increased political risks associated with these investments and a fall in appetite from investors. It contrasts this with fast-growing opportunities in energy, particularly via renewable energy projects. The paper draws attention to the risks of entrenching a financing model of infrastructure that has strongly negative distributional implications, much in line with well-documented inequities implied by the current model of water provision in England (see Bayliss and Mattioli 2018).


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